

Audubon County Memorial Hospital
Audubon, Iowa

**Basic Financial Statements
and Supplementary Information
June 30, 2012 and 2011**

Together with Independent Auditor's Report

Audubon County Memorial Hospital

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Audubon County Memorial Hospital

Officials
June 30, 2012

Name	Title	Term Expires
Board of Trustees		
Jay D. Mendenhall	Chairman	December 31, 2012
Daniel Smith	Vice Chairman	December 31, 2014
Wayne Hansen	Secretary	December 31, 2016
Paul Schultz, DDS	Treasurer	December 31, 2012
Mark Kessler	Member	December 31, 2016
Connie S. Faga	Member	December 31, 2014
Marlene Ballou	Member	December 31, 2012
Hospital Officials		
Tom Smith	CEO/Administrator	
Joan Fancher	Assistant Administrator	
Karen McGuire	Chief Financial Officer	

Independent Auditor's Report

To the Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa:

We have audited the accompanying basic financial statements of Audubon County Memorial Hospital (Hospital) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2012 and 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2012 and 2011, and the results of its operations, changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The other supplementary statements (Exhibits 1 – 8) are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Seim Johnson, LLP

Omaha, Nebraska,
October 26, 2012.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Introduction

This management's discussion and analysis of the financial performance of Audubon County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents decreased between 2012 and 2011 by \$195,271 or 9% and increased between 2011 and 2010 by \$629,214 or 41%.
- The Hospital's net assets increased \$880,294 or 5% in 2012, and increased \$549,741 or 3% in 2011.
- The Hospital reported an operating gain in 2012 of \$71,034, and an operating loss in 2011 of \$375,429.
- Net nonoperating revenue decreased by \$119,015 or 13% in 2012 compared to 2011 and increased by \$116,838 or 14% in 2011 compared to 2010.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenue, expenses and changes in net assets; and a statement of cash flow. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenue, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$880,294 or 5% in 2012 over 2011 as shown in Table 1.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Table 1: Assets, Liabilities and Net Assets

		2012	2011	2010
Assets				
Patient accounts receivable, net	\$	1,176,016	1,162,452	1,034,049
Other current assets		10,703,069	9,640,177	9,172,653
Capital assets, net		4,234,735	4,423,258	4,596,647
Other noncurrent assets		4,153,719	3,894,760	3,635,227
Total assets	\$	<u>20,267,539</u>	<u>19,120,647</u>	<u>18,438,576</u>
Liabilities				
Current liabilities	\$	<u>1,727,462</u>	<u>1,460,864</u>	<u>1,328,534</u>
Net Assets				
Invested in capital assets, net of related debt		4,234,735	4,423,258	4,596,647
Restricted expendable		207,227	205,005	103,443
Restricted non expendable		10,000	10,000	10,000
Unrestricted		14,088,115	13,021,520	12,399,952
Total net assets		<u>18,540,077</u>	<u>17,659,783</u>	<u>17,110,042</u>
Total liabilities and net assets	\$	<u>20,267,539</u>	<u>19,120,647</u>	<u>18,438,576</u>

In 2012, gross accounts receivable increased by \$112,145 from fiscal year 2011. Net days in accounts receivable decreased from 45 in 2011 to 43 in 2012. Provision for bad debt decreased by \$88,062, and contractual adjustments increased by \$306,951. Charity care decreased by \$60,483 over 2011.

Interest earnings averaged 1.02% on general fund investments as compared to 1.54% in 2011 and .98% on plant fund investments as compared to 1.68% in 2011. This is all due to a decrease in interest rates given by all local banks.

Capital assets increased by \$424,675 between year 2011 and 2012. Accumulated depreciation increased by \$613,198 for a net decrease in capital assets of \$188,523.

In 2011, gross accounts receivable increased by \$158,915 from fiscal year 2010. Provision for bad debt decreased by \$16,246, and contractual adjustments increased by \$540,457. Charity care increased by \$38,015 over 2010.

Capital assets increased by \$49,735 between year 2010 and 2011. Accumulated depreciation increased by \$223,124 for a net decrease in capital assets of \$173,389.

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Hospital's net assets increased by \$880,294 or 5% as shown in Table 2. This increase is made up of several different components.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenue			
Net patient service revenue	9,769,249	9,090,255	8,704,880
Other operating revenue	412,278	107,663	132,028
Total operating revenue	10,181,527	9,197,918	8,837,432
Operating Expenses			
Salaries and wages and employee benefits	5,617,688	5,086,413	4,778,034
Depreciation and amortization	824,899	829,990	827,390
Other operating expenses	3,667,906	3,656,944	3,453,882
Total operating expenses	10,110,493	9,573,347	9,059,306
Operating Income (Loss)	71,034	(375,429)	(221,874)
Non-operating Revenue			
Property taxes	605,566	581,722	511,099
Interest income	104,242	162,666	215,151
Non-capital gifts	94,200	178,635	79,935
Total non-operating revenue	804,008	923,023	806,185
Excess of Revenue Over Expenses Before Capital Grants and Contributions	875,042	547,594	584,311
Capital Grants and Contributions	5,252	2,147	8,264
Increase in Net Assets	\$ 880,294	549,741	592,575

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service revenue and other operating revenue and the expenses incurred to perform those services. In 2011 and 2010 the Hospital reported an operating loss, but in 2012 there was a gain in operating income. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2012, the following changes were noted:

- Inpatient revenue decreased by \$325,024 in 2012, acute inpatient days decreased by 181 days with an average length of stay of 3.3 days, swing-bed days increased by 23 days. The Hospital had an increase in patient charges in most areas for fiscal year 2012 of 7%.
- Outpatient revenue increased by \$1,122,178, of that, \$455,546 was from the two rural health clinics. Audubon Family Healthcare was acquired in May of 2011, so 2012 was the first full year for that clinic. We are now also billing for several more specialty Doctors in the outpatient clinic areas. Currently, we do the professional billing for Iowa Heart Center, Iowa Orthopedics, Heartland Oncology, and Adult and Pediatric Urology.
- In 2012, overall, net patient service revenue increased by \$678,994 or 7% from fiscal year 2011
- Other operating revenue was significantly higher as the Hospital booked \$71,800 from Medicaid, and \$228,605 from Medicare for electronic health record incentive payments.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2012 and 2011

- Operating expenses increased by \$537,146. Mostly due to salary, wages, and employee benefits. Salaries increased at anniversary date by 3%, and there was an addition of Audubon Family Healthcare Clinic which included a physician.
- The Hospital also began using the 340B drug program in January of 2012. This program significantly lowers the cost of drugs used for our outpatients.

In 2011, the following changes were noted:

- Inpatient revenue increased by \$32,613 in 2011, acute inpatient days increased by 73 days with an average length of stay of 3.4 days, swing-bed days decreased by 57 days. The Hospital had an overall increase in patient charges for fiscal year 2011 of 7%.
- Outpatient revenue increased by \$917,492.
- In 2011, overall, net patient service revenue increased by \$384,851 or 4% from fiscal year 2010.
- Operating expenses increased by \$514,041.

Nonoperating Revenue and Expenses

Nonoperating revenue consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which decreased by \$119,015 or 13% from 2011 to 2012 and increased by \$116,838 or 14% from 2010 to 2011. Investment income decreased in 2012 and 2011 by \$58,424 and \$52,485, respectively, due to decreasing interest rates from the three local banks.

Property tax receipts were higher due to higher property valuation. Per thousand tax asking of \$1.85 remained the same as 2011.

Gifts for capital and noncapital items received in fiscal year 2012 decreased by \$84,435. Grants and gifts for capital and non-capital items received in fiscal year 2011 increased by \$98,700.

Contributions

The Hospital received contributions of \$100,000 for physician recruitment in 2011.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenue in 2012, 2011 and 2010, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$4.2 million invested in capital assets, net of accumulated depreciation. At the end of 2011, the Hospital had \$4.4 million invested in capital assets, net of accumulated depreciation.

The Hospital plans to do a complete outpatient clinic remodel in fiscal year 2013. This will update what was at one time the inpatient wing.

Debt

The Hospital had no debt at the end of fiscal year 2012.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 712.563.2611.

Audubon County Memorial Hospital

Balance Sheets June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,985,497	2,180,768
Short-term investments	7,391,944	6,325,226
Receivables -		
Patients, net of estimated uncollectible accounts		
of \$245,851 in 2012 and \$217,309 in 2011	1,176,016	1,162,452
Succeeding year property tax	638,818	605,922
Other	248,077	28,366
Inventories	305,562	300,317
Prepaid expenses	<u>133,171</u>	<u>199,578</u>
Total current assets	<u>11,879,085</u>	<u>10,802,629</u>
Assets limited as to use or restricted:		
Designated by Board of Trustees	3,936,492	3,679,755
Restricted by donors for -		
Scholarships	6	13
Physician recruitment	207,221	204,992
Endowment	<u>10,000</u>	<u>10,000</u>
Total assets limited as to use or restricted	<u>4,153,719</u>	<u>3,894,760</u>
Capital assets, net	<u>4,234,735</u>	<u>4,423,258</u>
Total assets	<u>\$ 20,267,539</u>	<u>19,120,647</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 346,983	303,024
Accrued salaries, vacation and benefits payable	531,290	452,753
Estimated third-party payor settlements	210,371	99,165
Deferred revenue for succeeding year property tax receivable	<u>638,818</u>	<u>605,922</u>
Total current liabilities	<u>1,727,462</u>	<u>1,460,864</u>
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	4,234,735	4,423,258
Restricted -		
Expendable for scholarships	6	13
Expendable for physician recruitment	207,221	204,992
Nonexpendable endowment	10,000	10,000
Unrestricted	<u>14,088,115</u>	<u>13,021,520</u>
Total net assets	<u>18,540,077</u>	<u>17,659,783</u>
Total liabilities and net assets	<u>\$ 20,267,539</u>	<u>19,120,647</u>

See notes to financial statements

Audubon County Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 9,947,972	9,357,040
Provision for bad debt	(178,723)	(266,785)
Net patient service revenue	9,769,249	9,090,255
Other operating revenue	412,278	107,663
Total operating revenue	<u>10,181,527</u>	<u>9,197,918</u>
OPERATING EXPENSES:		
Salaries	4,193,932	3,727,146
Employee benefits	1,423,756	1,359,267
Medical professional fees and purchased services	1,120,372	1,097,663
Medical supplies and other	1,508,509	1,563,790
General services	304,139	294,264
Administrative services	660,376	636,142
Insurance	74,510	65,085
Depreciation and amortization	824,899	829,990
Total operating expenses	<u>10,110,493</u>	<u>9,573,347</u>
OPERATING INCOME (LOSS)	<u>71,034</u>	<u>(375,429)</u>
NONOPERATING REVENUE:		
County tax revenue	605,566	581,722
Investment income	104,242	162,666
Noncapital grants and contributions	94,200	178,635
Nonoperating revenue	<u>804,008</u>	<u>923,023</u>
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	875,042	547,594
GRANTS AND CONTRIBUTIONS	<u>5,252</u>	<u>2,147</u>
INCREASE IN NET ASSETS	880,294	549,741
NET ASSETS, Beginning of year	<u>17,659,783</u>	<u>17,110,042</u>
NET ASSETS, End of year	<u>\$ 18,540,077</u>	<u>17,659,783</u>

See notes to financial statements

Audubon County Memorial Hospital

Statements of Cash Flows For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 9,866,891	9,426,017
Cash paid for employees salaries and benefits	(5,539,151)	(5,042,215)
Cash paid to suppliers and contractors	(3,562,785)	(3,813,892)
Other receipts and payments, net	<u>186,946</u>	<u>108,898</u>
Net cash provided by operating activities	<u>951,901</u>	<u>678,808</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	94,200	178,635
County tax receipts	<u>605,566</u>	<u>581,722</u>
Net cash provided by noncapital financing activities	<u>699,766</u>	<u>760,357</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(630,755)	(672,233)
Capital grants and contributions	<u>5,252</u>	<u>2,147</u>
Net cash used in capital and related financing activities	<u>(625,503)</u>	<u>(670,086)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and assets limited as to use or restricted, net	(1,325,677)	(302,531)
Investment income	<u>104,242</u>	<u>162,666</u>
Net cash used in investing activities	<u>(1,221,435)</u>	<u>(139,865)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(195,271)	629,214
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,180,768</u>	<u>1,551,554</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,985,497</u>	<u>2,180,768</u>

See notes to financial statements

Audubon County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 71,034	(375,429)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	824,899	829,990
(Gain) loss on sale of capital assets	(5,621)	15,632
(Increase) decrease in current assets -		
Receivables -		
Patients	(13,564)	(128,403)
Other	(219,711)	(14,397)
Inventories	(5,245)	(12,418)
Prepaid expenses	66,407	(109,346)
Estimated third-party payor settlements	--	365,000
Increase (decrease) in current liabilities -		
Accounts payable	43,959	(35,184)
Accrued salaries, vacation and benefits payable	78,537	44,198
Estimated third-party payor settlements	<u>111,206</u>	<u>99,165</u>
Net cash provided by operating activities	\$ <u>951,901</u>	<u>678,808</u>

See notes to financial statements

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Audubon County Memorial Hospital (Hospital). These policies are in accordance with U.S. generally accepted accounting principles.

A. *Reporting Entity*

The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa, governed by a seven-member Board of Trustees. The Hospital and Audubon County Hospital Foundation (Foundation) are collectively referred to here as the Hospital. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Audubon County area and the surrounding area in South Central Iowa. The Foundation is organized under Chapter 504A of the Code of Iowa.

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be closely related. The Foundation's objectives are to "promote the best interest of the Audubon County Memorial Hospital and to promote and strive for improvement and betterment of said facilities and services." It is organized primarily to hold certain assets for and benefit the Hospital.

The Foundation is combined with data of the Hospital for financial reporting purposes using the blending method. The Foundation is a legally separate corporation that is, in substance, a part of the Hospital's operations. Transactions between the Hospital and the Foundation are eliminated in preparation of the financial statements.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

Restricted net assets:

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

Pursuant to Section 1600 of the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and donors.

G. Patient Receivables, Net

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. Property Tax Receivable

For the years ended June 30, 2012 and 2011, the Hospital received approximately 6% of its financial support from property tax revenue, which was used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Assets Limited as to Use or Restricted

Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes. Donor restricted funds are maintained by the Hospital according to the terms specified by the donor.

K. Investments

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and increases in fair value of investments.

L. Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

Land improvements	10 – 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

M. Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

N. Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

O. Statements of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses.

P. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

R. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community Hospital at or below cost.

S. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

T. Management

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Hospital-Des Moines. Administration and support services fees of \$280,987 and \$265,073 were incurred for the years ended June 30, 2012 and 2011, respectively.

U. Reclassification

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 reporting format.

V. Subsequent Events

The Hospital considered events occurring through October 26, 2012 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services, outpatient and certain rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. Physician clinic services related to Medicare beneficiaries are paid based on fee schedule amounts. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital is reimbursed on a prospectively determined rate per episode for home care services rendered to Medicare beneficiaries. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2010.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	2012	2011
Gross patient service revenue:		
Inpatient services and swing bed	\$ 1,160,142	1,444,923
Outpatient	10,372,270	9,705,712
Clinic	920,091	464,462
Total gross patient service revenue	12,452,503	11,615,097
Deductions from patient service revenue:		
Medicare	1,213,138	1,225,021
Medicaid	195,188	191,498
Other payors	1,096,205	781,055
Charity care	--	60,483
Total deductions from patient service revenue	2,504,531	2,258,057
Net patient service revenue before provision for bad debt	\$ 9,947,972	9,357,040

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 59% and 3%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012 compared to 59% for Medicare and 5% for Medicaid in 2011. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(3) Deposits and Investments

The Hospital's deposits in banks at June 30, 2012 and 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

The Hospital's investments at June 30, 2012 and 2011 consisted of money market mutual funds as follows:

	<u>2012</u>	<u>2011</u>
Money market mutual funds – Foundation	\$ --	5,791
Mutual funds – Foundation	<u>132,660</u>	<u>127,129</u>
	<u>\$ 132,660</u>	<u>132,920</u>

The composition of investments and assets limited as to use or restricted as of June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Short-term investments, Certificates of deposit	\$ <u>7,391,944</u>	<u>6,325,226</u>
Assets limited as to use or restricted:		
Internally designated –		
Cash and cash equivalents	\$ 675,728	453,453
Certificates of deposit	3,345,331	3,308,387
Money market mutual funds	--	5,791
Mutual funds	<u>132,660</u>	<u>127,129</u>
	<u>\$ 4,153,719</u>	<u>3,894,760</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2012 and 2011 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 104,977	147,045
Net increase (decrease) in fair value of investments	<u>(735)</u>	<u>15,621</u>
Total investment return	<u>\$ 104,242</u>	<u>162,666</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Patient accounts	\$ 1,738,730	1,626,585
Less estimated third-party contractual adjustments	(316,863)	(246,824)
Less allowance for doubtful accounts	<u>(245,851)</u>	<u>(217,309)</u>
	<u>\$ 1,176,016</u>	<u>1,162,452</u>

The Hospital is located in Audubon, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2012</u>	<u>2011</u>
Medicare	47%	51%
Medicaid	2	4
Commercial	32	28
Private pay	<u>19</u>	<u>17</u>
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

Capital assets activity for the years ended June 30, 2012 and 2011 were as follows:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	14,295	234,998	(118,193)	131,101
Total capital assets, not being depreciated	<u>82,684</u>	<u>234,998</u>	<u>(118,193)</u>	<u>199,490</u>
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	7,500,407	5,118	74,238	7,579,763
Fixed equipment	676,133	--	(55,336)	620,797
Major moveable equipment	4,154,745	394,960	(111,111)	4,438,594
Total capital assets, being depreciated	<u>12,754,314</u>	<u>400,078</u>	<u>(92,209)</u>	<u>13,062,183</u>
Less accumulated depreciation:				
Land improvements	324,047	21,420	--	345,467
Hospital buildings	4,749,751	385,410	--	5,135,161
Fixed equipment	547,785	18,739	(55,336)	511,188
Major moveable equipment	2,792,157	399,330	(156,366)	3,035,121
Total accumulated depreciation	<u>8,413,740</u>	<u>824,899</u>	<u>(211,702)</u>	<u>9,026,938</u>
Total capital assets, being depreciated, net	<u>4,340,574</u>	<u>(424,821)</u>	<u>119,493</u>	<u>4,035,245</u>
Total capital assets, net	<u>\$ 4,423,258</u>	<u>(189,823)</u>	<u>1,300</u>	<u>4,234,735</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

	June 30, 2010	Additions	Transfers and Disposals	June 30, 2011
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	41,929	479,041	(506,675)	14,295
Total capital assets, not being depreciated	110,318	479,041	(506,675)	82,684
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	7,479,044	39,469	(18,106)	7,500,407
Fixed equipment	676,133	--	--	676,133
Major moveable equipment	4,098,739	154,670	(98,664)	4,154,745
Total capital assets, being depreciated	12,676,945	194,139	(116,770)	12,754,314
Less accumulated depreciation:				
Land improvements	301,854	22,193	--	324,047
Hospital buildings	4,387,394	380,463	(18,106)	4,749,751
Fixed equipment	526,028	21,757	--	547,785
Major moveable equipment	2,975,340	405,577	(588,760)	2,792,157
Total accumulated depreciation	8,190,616	829,990	(606,866)	8,413,740
Total capital assets, being depreciated, net	4,486,329	(635,851)	490,096	4,340,574
Total capital assets, net	\$ 4,596,647	(156,810)	(16,579)	4,423,258

(6) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$2,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2012 and 2011, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(7) Pension Plan

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2012 and 2011

Plan members are required to contribute 5.38% and 4.50% of their annual covered salary and the Hospital is required to contribute 8.07% and 6.95% of annual covered payroll for 2012 and 2011, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010, were \$336,013, \$257,145 and \$229,599, respectively, which equaled the required contributions for each year.

(8) Contingencies

The Hospital is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

(9) Health Information Technology Incentives

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012 the Hospital qualified for the financial incentive payments by attesting it met specific criteria set by the Center for Medicare and Medicaid services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. An incentive receivable of \$228,605 has been recognized in the balance sheet as of June 30, 2012 as part of other receivables. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. The Hospital has elected to record the entire amount of the incentive payment as other operating revenue in the period earned, and not defer any portion that may be related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

Amounts recognized as grant revenue, included with other operating revenue in the accompanying statements of revenue, expenses and changes in net assets for the year ended June 30, 2012 is as follows:

Medicare	\$	228,605
Medicaid		<u>71,800</u>
	\$	<u><u>300,405</u></u>

Audubon County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets – Budget and Actual (Accrual Basis) June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2012, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 605,566	--	605,566	585,785	19,781
Add: Other revenues / receipts	10,310,848	(53,317)	10,257,531	10,552,614	(295,083)
Less: Expenses / disbursements	<u>10,062,739</u>	<u>(330,048)</u>	<u>9,732,691</u>	<u>11,059,182</u>	<u>1,326,491</u>
Net	853,675	276,731	1,130,406	79,217	<u>1,051,189</u>
Balance beginning of year	<u>17,374,748</u>	<u>(5,285,902)</u>	<u>12,088,846</u>	<u>12,348,991</u>	
Balance end of year	<u>\$ 18,228,423</u>	<u>(5,009,171)</u>	<u>13,219,252</u>	<u>12,428,208</u>	

Combining Balance Sheet
June 30, 2012

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,857,929	127,568	--	1,985,497
Short-term investments	7,340,264	51,680	--	7,391,944
Receivables -				
Patients, net of estimated uncollectible accounts of \$245,851 in 2012	1,176,016	--	--	1,176,016
Succeeding year property tax	638,818	--	--	638,818
Other	248,077	--	--	248,077
Inventories	305,562	--	--	305,562
Prepaid expenses	133,171	--	--	133,171
Total current assets	<u>11,699,837</u>	<u>179,248</u>	<u>--</u>	<u>11,879,085</u>
Assets limited as to use or restricted:				
Designated by Board of Trustees	3,803,832	132,660	--	3,936,492
Restricted by donors for -				
Scholarships	6	--	--	6
Physician recruitment	207,221	--	--	207,221
Endowment	10,000	--	--	10,000
Total assets limited as to use or restricted	<u>4,021,059</u>	<u>132,660</u>	<u>--</u>	<u>4,153,719</u>
Capital assets, net	<u>4,234,735</u>	<u>--</u>	<u>--</u>	<u>4,234,735</u>
Total assets	<u>\$ 19,955,631</u>	<u>311,908</u>	<u>--</u>	<u>20,267,539</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 346,983	--	--	346,983
Accrued salaries, vacation and benefits payable	531,036	254	--	531,290
Estimated third-party payor settlements	210,371	--	--	210,371
Deferred revenue for succeeding year property tax receivable	638,818	--	--	638,818
Total current liabilities	<u>1,727,208</u>	<u>254</u>	<u>--</u>	<u>1,727,462</u>
Commitments and contingencies				
Net assets:				
Invested in capital assets, net of related debt	4,234,735	--	--	4,234,735
Restricted -				
Expendable for scholarships	6	--	--	6
Expendable for physician recruitment	207,221	--	--	207,221
Nonexpendable endowment	10,000	--	--	10,000
Unrestricted	<u>13,776,461</u>	<u>311,654</u>	<u>--</u>	<u>14,088,115</u>
Total net assets	<u>18,228,423</u>	<u>311,654</u>	<u>--</u>	<u>18,540,077</u>
Total liabilities and net assets	<u>\$ 19,955,631</u>	<u>311,908</u>	<u>--</u>	<u>20,267,539</u>

See accompanying independent auditor's report

**Combining Statement of Revenue, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	\$ 9,947,972	--	--	9,947,972
Provision for bad debt	(178,723)	--	--	(178,723)
Net patient service revenue	9,769,249	--	--	9,769,249
Other operating revenue	412,278	--	--	412,278
Total operating revenue	10,181,527	--	--	10,181,527
OPERATING EXPENSES:				
Salaries	4,157,960	35,972	--	4,193,932
Employee benefits	1,421,004	2,752	--	1,423,756
Medical professional fees and purchased services	1,120,372	--	--	1,120,372
Medical supplies and other	1,508,509	--	--	1,508,509
General services	304,139	--	--	304,139
Administrative services	651,346	30,382	(21,352)	660,376
Insurance	74,510	--	--	74,510
Depreciation and amortization	824,899	--	--	824,899
Total operating expenses	10,062,739	69,106	(21,352)	10,110,493
OPERATING INCOME (LOSS)	118,788	(69,106)	21,352	71,034
NONOPERATING REVENUE:				
County tax revenue	605,566	--	--	605,566
Investment income	99,933	4,309	--	104,242
Noncapital grants and contributions	2,784	91,416	--	94,200
Nonoperating revenue	708,283	95,725	--	804,008
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	827,071	26,619	21,352	875,042
GRANTS AND CONTRIBUTIONS	26,604	--	(21,352)	5,252
INCREASE IN NET ASSETS	853,675	26,619	--	880,294
NET ASSETS, Beginning of year	17,374,748	285,035	--	17,659,783
NET ASSETS, End of year	\$ 18,228,423	311,654	--	18,540,077

See accompanying independent auditor's report

Patient Service Revenue
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
DAILY PATIENT SERVICES:								
Medical, surgical and obstetrics	\$ 243,741	271,501	--	515,242	295,466	206,237	2,614	504,317
Skilled nursing	--	--	226,288	226,288	--	--	158,367	158,367
Coronary care	--	--	--	--	1,536	--	--	1,536
	<u>243,741</u>	<u>271,501</u>	<u>226,288</u>	<u>741,530</u>	<u>297,002</u>	<u>206,237</u>	<u>160,981</u>	<u>664,220</u>
NURSING SERVICES:								
Operating room	31,233	1,186,105	1,525	1,218,863	29,370	1,098,707	3,271	1,131,348
Emergency	3,542	777,046	1,177	781,765	7,110	701,935	806	709,851
Recovery room	2,709	106,555	--	109,264	2,579	103,382	516	106,477
	<u>37,484</u>	<u>2,069,706</u>	<u>2,702</u>	<u>2,109,892</u>	<u>39,059</u>	<u>1,904,024</u>	<u>4,593</u>	<u>1,947,676</u>
OTHER PROFESSIONAL SERVICES:								
Radiology	47,818	2,511,887	12,911	2,572,616	148,003	2,340,112	19,157	2,507,272
Laboratory	83,056	1,929,227	28,880	2,041,163	127,114	1,796,930	43,449	1,967,493
Pharmacy	108,516	1,510,215	109,351	1,728,082	181,331	1,461,552	96,486	1,739,369
Medical and surgical supplies	59,679	434,210	34,660	528,549	72,492	471,533	31,758	575,783
Audubon Family Health Care Clinic	--	485,713	--	485,713	--	81,026	--	81,026
Exira Medical Clinic	--	434,377	--	434,377	--	383,438	--	383,438
Electrocardiology	23,640	407,289	2,603	433,532	36,266	378,363	4,687	419,316
Physical therapy	11,281	344,743	33,637	389,661	18,500	270,525	33,980	323,005
Anesthesiology	12,834	372,063	--	384,897	12,632	392,675	3,400	408,707
Clinic	706	184,195	679	185,580	1,605	141,954	270	143,829
Sleep study	--	76,080	--	76,080	--	102,360	--	102,360
Occupational therapy	4,076	36,188	33,902	74,166	8,952	23,538	41,681	74,171
Cardiology	--	71,055	--	71,055	--	60,574	--	60,574
Blood service	7,006	41,185	1,280	49,471	11,280	42,878	6,959	61,117
Respiratory therapy	8,626	33,145	6,548	48,319	17,272	30,072	8,628	55,972
Intravenous therapy	8,363	30,318	3,700	42,381	11,890	33,210	2,123	47,223
Psychiatry	649	20,647	--	21,296	177	27,354	284	27,815
Cardiac Rehabilitation	--	21,166	--	21,166	--	20,154	--	20,154
Speech therapy	2,992	6,685	2,536	12,213	1,917	897	995	3,809
Dietary	--	760	--	760	--	770	--	770
	<u>379,242</u>	<u>8,951,148</u>	<u>270,687</u>	<u>9,601,077</u>	<u>649,431</u>	<u>8,059,915</u>	<u>293,857</u>	<u>9,003,203</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>660,467</u>	<u>11,292,355</u>	<u>499,677</u>	<u>12,452,499</u>	<u>985,492</u>	<u>10,170,176</u>	<u>459,431</u>	<u>11,615,099</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,504,527)				(2,197,576)
Charity care services and other discounts, based on charges forgone				--				(60,483)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				9,947,972				9,357,040
PROVISION FOR BAD DEBT				(178,723)				(266,785)
NET PATIENT SERVICE REVENUE				<u>9,769,249</u>				<u>9,090,255</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Other Revenues		
Medicare EHR incentive	\$ 228,605	--
Medicaid EHR incentive	71,800	--
Other	41,796	62,891
Space rental	24,440	25,425
Cafeteria Meals	21,009	20,030
Grants	19,007	14,949
Gain (loss) on sale of capital assets	<u>5,621</u>	<u>(15,632)</u>
	<u>\$ 412,278</u>	<u>107,663</u>

See accompanying independent auditor's report

Departmental Expenses
For the Years Ended June 30, 2012 and 2011

	2012			2011		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 845,477	28,903	874,380	824,098	31,047	855,145
Emergency service	458,910	100,404	559,314	410,312	101,092	511,404
Operating room	80,972	149,942	230,914	85,213	127,865	213,078
Nursing Administration	79,246	9,620	88,866	70,987	7,834	78,821
	1,464,605	288,869	1,753,474	1,390,610	267,838	1,658,448
OTHER PROFESSIONAL SERVICES:						
Radiology	189,952	718,032	907,984	195,777	708,335	904,112
Pharmacy	137,349	519,516	656,865	138,860	525,197	664,057
Laboratory	240,192	327,794	567,986	232,289	337,319	569,608
Aud Family Health Care Clinic	334,248	40,068	374,316	37,600	37,466	75,066
Exira Medical Clinic	270,755	37,941	308,696	270,092	42,766	312,858
Central Supply	2,696	271,432	274,128	5,733	315,387	321,120
Medical records	173,211	45,084	218,295	146,608	52,402	199,010
Specialty clinics	161,277	43,573	204,850	148,773	6,508	155,281
Physical therapy	179,731	11,808	191,539	157,522	14,515	172,037
Anesthesiology	--	191,318	191,318	--	203,310	203,310
Cardiology	--	48,474	48,474	--	61,724	61,724
Respiratory therapy	35,952	3,480	39,432	36,064	3,261	39,325
Sleep study	--	26,700	26,700	--	36,900	36,900
Occupational therapy	--	15,626	15,626	--	16,092	16,092
Cardiac rehabilitation	7,749	3,859	11,608	7,269	790	8,059
Electrocardiology	3,385	7,341	10,726	3,657	7,380	11,037
Speech therapy	--	8,016	8,016	--	1,983	1,983
Psychiatry	5,830	--	5,830	6,409	--	6,409
Intravenous therapy	--	2,370	2,370	--	2,460	2,460
	1,742,327	2,322,432	4,064,759	1,386,653	2,373,795	3,760,448
GENERAL SERVICES:						
Plant operation and maintenance	133,582	207,693	341,275	130,305	194,105	324,410
Dietary	131,133	76,739	207,872	126,100	84,220	210,320
Housekeeping	133,043	24,817	157,860	127,587	24,127	151,714
Laundry	23,869	12,470	36,339	20,800	11,632	32,432
	421,627	321,719	743,346	404,792	314,084	718,876
ADMINISTRATIVE SERVICES	565,373	660,376	1,225,749	545,091	636,142	1,181,233
NONDEPARTMENTAL:						
Employee benefits	--	1,423,756	1,423,756	--	1,359,267	1,359,267
Depreciation and amortization	--	824,899	824,899	--	829,990	829,990
Insurance	--	74,510	74,510	--	65,085	65,085
	--	2,323,165	2,323,165	--	2,254,342	2,254,342
TOTAL EXPENSES	\$ 4,193,932	5,916,561	10,110,493	3,727,146	5,846,201	9,573,347

See accompanying independent auditor's report

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2012 and 2011

ANALYSIS OF AGING:

Days Since Discharge	2012		2011	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,039,688	60 %	941,111	58 %
31 - 60	363,072	21	399,314	25
61 - 90	120,787	7	111,582	7
91 - 120	54,414	3	56,584	3
121 and over	160,769	9	117,994	7
	<u>1,738,730</u>	<u>100 %</u>	<u>1,626,585</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(245,851)		(217,309)	
Allowance for contractual adjustments	<u>(316,863)</u>		<u>(246,824)</u>	
	<u>\$ 1,176,016</u>		<u>1,162,452</u>	

	2012	2011
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 217,309	240,000
Provision of uncollectible accounts	178,723	266,785
Recoveries of accounts previously written off	303,470	337,598
Accounts written off	<u>(453,651)</u>	<u>(627,074)</u>
Balance, end of year	<u>\$ 245,851</u>	<u>217,309</u>

See accompanying independent auditor's report

Inventory/Prepaid Expenses
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
INVENTORY:		
General stores	\$ 140,617	137,794
Pharmacy	143,260	142,287
Laboratory	<u>21,685</u>	<u>20,236</u>
	<u>\$ 305,562</u>	<u>300,317</u>
 PREPAID EXPENSES:		
Insurance	\$ 24,989	113,004
Service contracts	85,400	76,565
Other	<u>22,782</u>	<u>10,009</u>
	<u>\$ 133,171</u>	<u>199,578</u>

See accompanying independent auditor's report

Financial and Statistical Highlights
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Patient Days		
Acute	311	492
Swing-bed	<u>401</u>	<u>378</u>
	<u>712</u>	<u>870</u>
Admissions (Acute)	95	145
Discharges (Acute)	95	145
Average Length of Stay in Days (Acute)	3.3	3.4
Beds	25	25
Occupancy percentage (Acute)	3.40%	5.39%
Emergency room visits	1,284	1,254
Specialty clinic visits	4,406	4,627
Number of employees - full-time equivalents	94	84

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa:

We have audited the financial statements of Audubon County Memorial Hospital (Hospital) as of and for the year ended June 30, 2012, and have issued our report thereon, dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item II-A-12, that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance that the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of the Hospital and other parties to who the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of the Hospital during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Spim Johnson, LLP

Omaha, Nebraska,
October 26, 2012.

Audubon County Memorial Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-12

Significant Deficiencies in Internal Control over Financial Reporting:

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-12

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.

III-B-12

Certified Budget: Hospital disbursements during the year ended June 30, 2012 did not exceed amounts budgeted

III-C-12

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-12

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

Audubon County Memorial Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012

III-E-12

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-12

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-12

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

III-H-12

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Audubon County Memorial Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2012

<u>Finding</u>	<u>Finding title</u>	<u>Status</u>	<u>If not corrected, corrective action plan or other explanation</u>
II-A-11	Segregation of duties in the accounting and data processing areas.	Not corrected.	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties. Similar finding reported at II-A-12.

Audubon County Memorial Hospital

Audit Staff
For the Year Ended June 30, 2012

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

J. Alex Morton, Staff Auditor

Bryce A. Arp, Staff Auditor